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2. Title or Subject (31) Line 1 Soviet Foreign Economic Assistance Line 2 to Poland Line 3 Line 4 Line 5		3. Analyst(s) & Other Contributors (31) Line 1 Line 2 Manhours Completion Date (y m d) 80/11/20	
4. Requester and Purpose (39) Line 1 Robert L. Barry Line 2 Deputy Assistant Secretary Line 3 Bureau of European Affairs Line 4 Department of State Line 5 Line 6		Classification (39) <div style="border: 1px solid black; height: 100px; width: 100%;"></div>	
5. Precs (39) Line 1 Discusses Soviet economic assistance to Line 2 Poland in the seventies and in 1980 and Line 3 looks at what Moscow could — or would — Line 4 do to help Poland in the future. Line 5 Line 6 Line 7 Line 8			

APPROVAL:

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Date

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Director (for special requesters)

Date

Note: Numbers in parentheses indicate the maximum number of characters and blanks to be inserted in a line—i.e., (16) means no more than 16 spaces.

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21 November 1980

ERMJC-106150

SOVIET ECONOMIC ASSISTANCE TO POLAND

The USSR has been more generous in providing hard currency loans to Poland in 1980 than in the past. Given its currently strong balance-of-payments position, Moscow may prefer to offer more hard currency loans rather than commodity credits, especially since the USSR will find itself hard pressed to supply Poland's requirements for additional deliveries of oil, raw materials, and foodstuffs. We also believe, however, that Moscow will be unwilling and unable to provide on a continuing basis the massive, long-term hard currency assistance so badly needed by Warsaw. Instead it will hope that the West will take the lead.

What the Soviets Have Done

Soviet economic and financial assistance to Poland before 1980 consisted of two large credits (mainly soft currency) extended in 1971 and 1976, and a hard currency loan in 1978. Other assistance via trade concessions was also apparently furnished. The largest credits were extended in response to civil disturbances triggered by food price increases. The 1-billion ruble credit extended in 1971 included \$100 million in hard currency, apparently a line of credit on commercial terms from Moscow Narodny Bank (MNB) in London. The Poles reportedly never used it because the terms were stiffer than they wished to pay.

The 1976 credit, was also announced as a 1-billion ruble credit but reportedly did not include hard currency. The Soviets

[REDACTED] [REDACTED]
agreed to provide:

- o above plan shipments of raw materials and consumer goods to Poland and to resume grain deliveries, suspended in 1975-76 because of the disastrous 1975 Soviet grain harvest;
- o increased crude oil shipments in 1977-80 and perhaps deliveries of raw materials, such as iron ore, that Poland had been buying from the West for hard currency; and,
- o pay on delivery for Polish equipment used in joint CEMA projects in the USSR rather than when the project came on stream. [REDACTED]

It is not clear whether the 1976 credit represented an extension of the drawdown period on the 1971 credit or an additional credit. In any event, Polish trade data suggest that only a portion of these credits were drawn. [REDACTED]

The Soviets may have provided other assistance to the Poles during the 1970s by (a) permitting Warsaw to divert exports from the USSR to the West, (b) making above-plan deliveries of raw materials and other commodities, and (c) paying higher prices for Polish coal than Warsaw received from Western customers. As a result, Poland accumulated trade deficits with the USSR of nearly \$1 billion between 1970 and mid-1980. In addition, other CEMA countries -- notably Hungary and Czechoslovakia -- may have borrowed in Western money markets on Poland's behalf. [REDACTED]

[REDACTED] [REDACTED]
[REDACTED]
[REDACTED]

[redacted]
[redacted]
Soviet Aid in 1980 [redacted]

The Soviet Union has provided Poland an estimated \$900 million in assistance in 1980, about one-third of it in hard currency credits. Two aid packages were announced in September. [redacted] said that between May and August the USSR had extended \$550 million in hard currency loans. The Polish media announced a second aid package of \$690 million following a Polish delegation's 11-12 September visit to Moscow. Although the total exceeds \$1.2 billion, Polish officials have admitted that there is double counting and that most of the aid Moscow has contributed in 1980 has been soft currency lending. [redacted]

A Polish [redacted] told [redacted] in Warsaw that the \$550 million in credits extended in May-August included \$300 million in short-term credits extended by the Soviet Foreign Trade Bank in August and \$45 million that Western Soviet-owned banks contributed to the \$325 million Eurodollar syndication signed in August. MNB also lent Poland \$40 million in May which we believe is not included in the \$300 million package. The remaining \$205 million of the \$550 million package reportedly is a soft currency loan, details of which are unavailable. The \$300 million loan had two purposes: to help cover more than \$20 million in withdrawals of hard currency funds from personal and foreign accounts in Polish banks between 27 August and 4 September and to finance purchases of food in the West. Poland reportedly has already used \$30 million of the credit to buy sugar in Western Europe, and Warsaw is negotiating to buy

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[REDACTED]

additional sugar, beef, and pork. The Poles have repaid \$20 million of this loan, possibly returning the deposits to Polish banks.

The \$45 million Soviet contribution to the Eurodollar syndication probably saved the Euro-loan. A Canadian bank had withdrawn, and it appeared that the loan would collapse if it did not exceed \$300 million. Moreover, the Soviet participation, carrying with it evidence of Moscow's support, encouraged the Western lenders. Soviet participation had strings attached, however. In early August MNB had turned down an offer to join the syndication because Moscow ruled that MNB could lend to Poland only to the extent that Poland repaid earlier loans by MNB. Poland reluctantly agreed to repay. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] The funds Poland received from the loan were thus reduced by the \$40 million in early repayments. [REDACTED]

The \$690-million package announced included three components: deliveries of commodities worth \$150 million if purchased on Western markets*; postponement of \$280 million in repayments on loans, and \$260 million in 10-year, low-interest credits. The commodity deliveries included 500,000 tons of grain, industrial raw materials and other goods. The deferment of \$280 million in payments apparently was connected to the August short-

* If calculated from the ruble amount announced, the figure would come to \$130 million at the September exchange rate.

[REDACTED]

[REDACTED]

[redacted]

term credits (totalling \$300 million, of which \$20 million has been repaid). The low interest credits probably represent an arrangement that allows Poland to run a higher deficit in its trade with the USSR, with the Soviets giving Poland ten years to repay through increased exports to the USSR. [redacted]

The following tabulation summarizes our estimate of Soviet aid to Poland in 1980.

	<u>Hard Currency</u>
Extended	<u>\$385 million</u>
Repaid	<u>-60 million</u>
Outstanding	<u>\$325 million</u>

	<u>Soft Currency</u>
Extended	<u>\$595 million</u>
May-August	<u>\$205 million</u>
September	<u>\$390 million</u>

The September soft currency credit includes above plan deliveries of goods worth \$130 million. The hard currency credits may be higher than we have estimated if Soviet banks in the West have granted unannounced loans. The soft currency component in the tabulation may be an overestimate because the \$130 million in above plan deliveries might have been included in one of the soft currency credits. [redacted]

Further Soviet aid was discussed during the 30 October visit to Moscow by Kania and Pinkowski, but the details have not been revealed. The focus seems to have been on the longer term; press communiques emphasized economic cooperation in agriculture and other industries. [redacted] reported on 3

[redacted]

November that the Soviets agreed to above-plan deliveries of cotton, iron ore, oil and food -- if Warsaw successfully handled the Solidarity registration issue and prevented further strikes.

[redacted]

What the Soviets Could/Would Do

Moscow is currently in a strong balance-of-payments position and presumably could provide more hard currency credits, particularly since they are made on commercial terms. Such assistance is more likely this year and next, but the massive, long-term hard currency financing Poland requires would be beyond Moscow's capabilities even if it were willing to provide such aid.* Moreover, the Soviets would wish to avoid setting a precedent for other East European countries. Moscow, in fact, probably prefers to have the West provide extensive hard currency loans as long as it perceives no serious threat to Moscow's hegemony in the Communist camp. [redacted]

The Soviets are facing serious economic problems themselves and may find the provision of additional above-plan deliveries of commodities to Poland even more onerous than hard currency assistance. In this sense, hard currency loans may be less concessionary than soft currency assistance. The Soviet consumer, faced with declining meat supplies because of two bad harvests, would understandably resent his leaders' providing

* The Poles have asked the West for more than \$10 billion in the form of rescheduling repayments due in 1981-83 and in export credits. Warsaw's borrowing needs include about \$4 billion annually to cover current account deficits in the next few years and some \$15 billion in 1981-83 to service Poland's hard currency debt.

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grain and/or meat to Poles whose level of meat consumption is already higher than that of the average Soviet citizen. The Soviets will also find it difficult to part with additional supplies of oil and other raw materials given the prospect of slower growth in production and increasing extraction costs. The USSR may be willing, however, to permit Poland to divert some exports to the West normally destined for the USSR. That may become necessary if output of important Polish hard currency earners such as hard coal continues to slump as a result of the strike settlement agreements. [redacted]

The Soviet decision on whether and how much assistance to provide Poland will not be an easy one and will in the final analysis be more political than economic. Much will depend on the outcome of current discussions between the Polish regime and the workers. For the time being we believe that Moscow will continue its piecemeal, ad hoc approach to assistance in order to prevent serious disruptions and avoid the need for Soviet military intervention. At the same time, Moscow will attempt to exact political and economic concessions from the Poles for any assistance. But because of expected resistance by Polish workers, Soviet as well as Polish leaders will have to tread carefully in attempting to introduce badly needed austerity programs in Poland. [redacted]

[redacted]
20 November 1980

[redacted]